

State of Missouri

Office of Secretary of State

Case No. AP-05-31

IN THE MATTER OF:

EDWARD D. JONES & CO., L.P.
12555 Manchester Road
St. Louis, Missouri 63131-3729,

Respondent,

CONSENT ORDER

The Missouri Securities Division ("Securities Division") alleges that Edward D. Jones & Co., L.P. d/b/a Edward Jones ("Respondent") failed to adequately disclose to investors information about its revenue sharing arrangements involving certain mutual fund companies and that this conduct constitutes grounds to discipline Respondent's registration in Missouri pursuant to Section 409.4-412(d), RSMo Supp. 2004.

1. Respondent and the Securities Division desire to settle the allegations and the matters raised by the staff of the Securities Division relating to the alleged violations by Respondent;
2. Respondent and the Securities Division consent to the issuance of this Consent Order and hereby stipulate that this Consent Order is in the public interest;
3. Respondent stipulates and agrees to the issuance of this Consent Order without further proceedings in this matter, agreeing to be fully bound by the terms and conditions specified herein;
4. Respondent waives its right to a hearing with respect to this matter;
5. Respondent stipulates and agrees that Respondent waives any rights Respondent may have to seek judicial review or otherwise challenge or contest the terms and conditions of this Order and, further, Respondent specifically forever releases and holds harmless the Missouri Office of Secretary of State, Secretary of State, Commissioner of Securities and their respective representatives and agents from any and all liability and claims arising out of, pertaining to or relating to this matter;
6. The Securities Division stipulates and agrees that with this consent order, the subject matter of Respondent's revenue sharing practices as set forth in paragraph 12(c), is fully and finally resolved such that for conduct prior to the date of this Order, no further action shall be taken by the Securities Division against Respondent and its representatives and agents arising out of, pertaining to or relating to this matter so

long as the facts contained here are true and complete; and

7. This Consent Order represents a settlement between the parties. It is expressly understood that the Stipulation and Order are for the purpose of resolving this proceeding only and are not to constitute admissions of liability or wrongdoing for any other purpose or proceeding.

STIPULATIONS OF FACT

8. Respondent and the Securities Division stipulate and agree to the following Stipulations of Fact:
9. Respondent is a limited partnership and a Missouri-registered broker-dealer with an address of 12555 Manchester Road, St. Louis, Missouri 63131-3729. Respondent is a member of the National Association of Securities Dealers ("NASD").
10. In March 2004, the Securities Division opened an investigation of Respondent relating to, among other things, revenue sharing between Respondent and certain mutual fund companies. Investigations into this same matter were also commenced by the Securities and Exchange Commission ("SEC"), the New York Stock Exchange ("NYSE"), the NASD, the United States Attorney for the Eastern District of Missouri ("USAO"), and others.
11. The Division's investigation revealed, among other things, that:
 - a. Respondent had revenue sharing arrangements involving seven mutual fund families ("Preferred Families"). These Preferred Families included: American Funds, Federated Investors, Goldman Sachs Group, Hartford Mutual Funds, Lord Abbett Funds, Putnam Investments, and Van Kampen Investments;
 - b. All of these revenue sharing arrangements involving the Preferred Families were negotiated by Respondent employees located in the State of Missouri ;
 - c. Respondent was paid millions of dollars from these revenue sharing arrangements each year; and
 - d. Respondent and certain of its investment representatives failed to adequately disclose these revenue sharing arrangements to Missouri investors.
12. In December 2004, Respondent, without admitting or denying the SEC's findings, consented to the entry of an Order Instituting Administrative and Cease-and-Desist Proceedings, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order Pursuant to Section 8A of the Securities Act of 1933 and Sections 15(b) and 21C of the Securities Exchange Act of 1934. In this order the SEC found, among other things, that:
 - a. Revenue sharing was a material factor, among others, with respect to the retention of fund families as Preferred Families.

- b. Respondent and its general and limited partners had a financial incentive to internally promote the sales of mutual funds from the Preferred Families over other mutual funds.
 - c. Respondent did not disclose on its website, or in any other written document that it prepared, the revenue sharing, directed brokerage payments and other payments received from the Preferred Families and their affiliates (referred to as "revenues sharing"). Respondent also did not adequately disclose the potential financial conflict created by these payments.
 - d. Respondent and certain of its investment representatives did not orally disclose to customers the revenue sharing, directed brokerage or other payments received by Respondent or the potential conflict of interest such payments create. Instead, Respondent relied on language in the Preferred Families' prospectuses and Statements of Additional Information ("SAIs") to disclose revenue sharing arrangements.
 - e. Many of the Preferred Families' prospectuses and SAIs failed to disclose adequate information about the source and the amount of the revenue sharing payments to Respondent and the resulting potential conflicts of interest.
13. Pursuant to this settlement with the SEC, Respondent was:
- a. Censured;
 - b. Ordered to cease and desist from committing or causing any violations and any future violations of Section 17(a)(2) of the Securities Act of 1933, Section 15B(c)(1) of the Exchange Act of 1934, Rule 10b-10 promulgated there under, and MSRB Rule G-15; and
 - c. Ordered to pay seventy five million dollars (\$75,000,000.00 to a FAIR Fund established pursuant to the Sarbanes-Oxley Act of 2002) for the benefit of those customers who purchased Preferred Family mutual fund shares from Respondent.
14. The Securities Division's investigation also determined that the policies and practices under investigation were developed at and implemented out of Respondent's headquarters, which is located in St. Louis, Missouri. As a consequence, the personnel responsible for developing the practices at issue are located in Missouri. In addition, the personnel responsible for complying with the SEC, NASD, NYSE and USAO settlement and consent orders are all located in Missouri. As a consequence, Missouri has a unique interest in not only the matters under investigation but also the implementation of the remedial measures set forth in the SEC, NASD, NYSE and USAO settlement and consent orders.
15. The Securities Division acknowledges the remedial measures implemented or to be implemented by Respondent pursuant to the SEC, NASD, NYSE and USAO settlement agreements and consent orders, and requires Respondent, upon request, to provide to the Securities Division evidence of Respondent's compliance with the aforesaid agreements including the following:
- a. Respondent's enhanced disclosures regarding its Preferred Mutual Fund Family

program ("program") on the ***mutual fund portion*** of its public website including but not limited to : (i) the existence of the program; (ii) the mutual fund families participating in the program; (iii) the amount of revenue sharing payments that Respondent receives from each of the Preferred Families based on a reasonable estimate from historical experience, expressed in basis points or dollars ; (iv) the total amount of revenue sharing payments (expressed in dollars) that Respondent receives annually, starting with the amount received in 2004 as of the date of this Order and updated each year thereafter; (v) the source of such payments (fund assets, adviser, distributor, underwriter, etc.); (vi) that its Investment Representatives and the equity owners of the firm may benefit financially from the revenue sharing payments Respondent receives; and (vii) that Respondent does not receive revenue sharing payments from any non-preferred mutual fund families.

- b. Respondent's enhanced disclosures regarding its Preferred Mutual Fund Family program ("program"), on the ***college savings program portion*** of its public website including but not limited to: (i) the existence of the program; (ii) the mutual fund families that pay Respondent revenue sharing for the sale of 529 plans; (iii) the amount of revenue sharing payments that Respondent receives from each of these fund families based on a reasonable estimate from historical experience, expressed in basis points or dollars; (iv) the total amount of revenue sharing payments (expressed in dollars) that Respondent receives annually, starting with the amount received in 2004 as of the date of this Order and updated each year thereafter; (v) the source of such payments (fund assets, adviser, distributor, underwriter, etc.); (vi) that its Investment Representatives and the equity owners of the firm may benefit financially from the revenue sharing payments Respondent receives; and (vii) that Respondent does not receive revenue sharing payments from any non-preferred mutual fund families.
 - c. Respondent's procedures to ensure that Respondent is complying with its disclosure obligations, including but not limited to the foregoing website disclosures and a point-of-sale disclosure, under the SEC Order, the federal securities laws, and the MSRB rules.
 - d. Respondent's procedures to conduct comprehensive reviews of all prospectuses and SAIs issued by the Preferred Families on a regular basis to ensure that Respondent is in compliance with the SEC Order, the federal securities laws and the MSRB rules.
16. In addition to the remedial activities undertaken by Respondent pursuant to the SEC, NASD, NYSE and USAO settlement agreements and consent orders, Respondent has independently elected to make changes to its mutual fund research program. Subject to any applicable federal regulatory oversight, Respondent intends to implement a program that will establish a dedicated group within Respondent's research department to research mutual funds in order to develop a list or lists of recommended funds that include(s) mutual funds from both Respondent's Preferred Families and from non-preferred funds. Such list(s) would be provided to Respondent's Investment Representatives, along with access to research on the listed funds. Respondent intends that research shall develop the list(s) based on many factors ranging from fund performance, management, sector considerations and others, but excluding from consideration the factor of whether Respondent received revenue sharing incident to

the sales, servicing, or holding of such funds' shares.

JURISDICTIONAL STATEMENT

17. Respondent and the Securities Division stipulate and agree that the Commissioner has jurisdiction over these matters pursuant to the Missouri Securities Act, Chapter 409, et al.
18. Respondent and the Securities Division stipulate and agree that the Commissioner has authority to enter this Consent Order pursuant to Section 409.6-604(h) RSMo Supp. 2004, which provides:

The commissioner is authorized to issue administrative consent orders in the settlement of any proceeding in the public interest under this act.

ORDER

WHEREAS , the Commissioner, after consideration of the stipulations and statement set forth above and on the consent of Respondent and the Securities Division, finds the following Order to be in the public interest, necessary for the protection of public investors and consistent with the provisions of Chapter 409, RSMo Supp. 2004.

NOW, THEREFORE, it is hereby Ordered that:

1. Respondent shall make available upon request by the Division all information and reports submitted to the SEC, NYSE, NASD or the USAO pertaining to, among other things:
 - a. Respondent's policy and procedures to ensure that all statements made on Respondent's public website are not misleading.
 - b. Respondent's policy and procedures to document the basis for its decisions to add or remove mutual fund families from its list of Preferred Families.
 - c. Respondent's policy and set of procedures for training its investment representatives regarding the disclosure of financial incentives.
2. Respondent shall make available upon request by the Securities Division information regarding the implementation of Respondent's mutual fund research program.
3. Respondent is ordered to pay a civil penalty of six hundred and fifty thousand dollars (\$650,000.00) made payable to the State of Missouri , and the Secretary of State shall forward these funds to the state treasury for the benefit of county and township school funds as provided in Article IX, Section 7 of the Constitution of Missouri. Such amount shall be due and payable within ten (10) business days from date that this

Consent Order is entered.

4. Respondent is ordered to pay a total of eight hundred and fifty thousand dollars (\$850,000.00) to education funds. Respondent and the Securities Division consent to the payments set forth below to be made by Respondent within ten (10) business days of the date of the Order.
 - a. Five hundred Sixty Five thousand dollars (\$565,000.00) to the Missouri Investor Education and Protection Fund.
 - b. Two hundred Eighty Five thousand dollars (\$285,000.00) to the Missouri Council on Economic Education.
5. Respondent will pay its own costs and attorneys fees with respect to this matter.

SO ORDERED:

WITNESS MY HAND AND OFFICIAL SEAL OF MY OFFICE AT JEFFERSON CITY,
MISSOURI THIS 5th DAY OF AUGUST, 2005.

ROBIN CARNAHAN
SECRETARY OF STATE

(Signed/Sealed)
DAVID B. COSGROVE
COMMISSIONER OF SECURITIES

Consented to by:

Mary S. Hosmer
ASSISTANT COMMISSIONER OF SECURITIES
MISSOURI DIVISION OF SECURITIES

RESPONDENT
Steven Novik,
Treasurer
EDJ Holding Company, Inc.
Sole General Partner
Edward D. Jones & Company, L.P.

Approved as to form:
David M. Harris
Counsel for Respondent